



PERGAMON

Habitat International 26 (2002) 507–521

---

**HABITAT**  
INTERNATIONAL

---

[www.elsevier.com/locate/habitatint](http://www.elsevier.com/locate/habitatint)

# Indigenous land rights and dynamics of the land market in Kuala Lumpur, Malaysia

Ismail Omar<sup>a,\*</sup>, Aminah Md. Yusof<sup>b</sup>

<sup>a</sup> *Centre for Land Administration Studies (CLAS), Faculty of Engineering and Geoinformation Science, Universiti Teknologi Malaysia, 81310, Johor Bahru, Malaysia*

<sup>b</sup> *Construction Technology Management Centre (CTMC), Faculty of Civil Engineering, Universiti Teknologi Malaysia, 81310 Johor Bahru, Malaysia*

Received 21 March 2002; accepted 8 April 2002

---

## Abstract

This paper raises a number of important issues relating to legal and economic development concepts. It concentrates on the supply constraints affecting land development decisions of both private and public landowners in releasing land for development purposes. With reference to the indigenous land rights in Kuala Lumpur, this paper focuses on the restrictions in interest, which may limit the land from being transferred in the open market. With a limited market, the indigenous land achieves a lower value in the market place because transactions are limited within a particular group of people only. As a result, the market forces are restricted and the land development process for urban regeneration often comes to a halt. In examining the role of the indigenous land market in the redevelopment process of Kuala Lumpur, the study uses an institutional analysis to show the way in which these restrictions in interest affect landowners' decisions and, thus, restrict the supply of land to real estate redevelopment. In conclusion, the paper shows various causes for land supply constraints and ways to improve these with the aim to undertake urban redevelopment initiatives considering pressure for more land in the market. © 2002 Elsevier Science Ltd. All rights reserved.

**Keywords:** Indigenous land rights; Urban redevelopment; Dynamics of property markets; Kuala Lumpur

---

## 1. Introduction: an institutional analysis of property markets

In its broadest context, institutions are defined as 'the rule of the games' (North, 1996). A set of rules or institutions ranges from formal rules within social, economic and political systems to

---

\*Corresponding author.

E-mail address: [ismail@fkg.utm.my](mailto:ismail@fkg.utm.my) (I. Omar).

informal customs and traditions, which govern human social interactions (Healey, 1992; North, 1996). This means that institutional economics is concerned with collective behaviour of people so that their decisions and actions could be modified collectively (Graaskamp, 1992). As institutions are conceived as the rules, which facilitate and/or constrain human behaviour in the market process, institutionalism deals with institutional changes and individual behaviour in a broader social, political and economic context.

The analysis of institutional economics, or the analysis of new institutional economics in particular, has insight into the theorisation of land market interactions in the context of property market process. North (1996), for example, has generally contended on the importance of transaction cost under formal and informal rules affecting agents' decisions and performance. On the one hand, the formal constraints are written rules such as land policies and regulations, which may constrain and/or initiate decisions in the land supply for development. The unwritten or informal rules, on the other hand, are of culture, values, traditions and perception which may restrict land from being available in the market for development purposes (Healey, 1992; Ismail Omar, 1999, 2001; Van der Krabben, 1995). The analysis of institutional economics emphasises the importance of formal and informal institutions in the understanding of property markets (Keogh and D'Arcy, 1998). These institutions, by and large, are neglected by mainstream economics in the explanation of the dynamics of property market (Van der Krabben, 1995; Ismail Omar, 1999).

A theoretical framework with the institutional approach is, therefore, able to address the whole range of institutional constraints in relation to the potentially significant notion of transaction cost affecting various actors in the market process. As such, the analysis of new institutional economics generally and indirectly covers the whole range of formal and informal rules affecting the dynamics of the market. This means that formal rules of policies and regulations and informal ones of agents' collective behaviour may be leading to institutional constraints which are able to adequately explain the nature of land supply in the market.

Since institutionalism considers rules and agents' behaviour affecting transaction cost in the analysis of the property market (Keogh & D'Arcy, 1998; Van der Krabben, 1995), the notion of institutions is used to examine the indigenous land supply constraints in the residential property market in Kuala Lumpur. Even though institutionalism is too descriptive and too difficult to evaluate in a conventional and scientific way (Mair & Miller, 1992), it has adequate capability to analyse and evaluate the implications of formal and informal institutions affecting the dynamics of land supply in the market (Ismail Omar, 2001). This, in the end, will restrict the flow of land supply for urban redevelopment activities.

## **2. Overview of the economic development in Kuala Lumpur**

The Malaysian New Economic Policy is designed to initiate and guide the economic and social development of the country. Therefore, to a certain extent, these economic frameworks are able to streamline and guide the direction of the property market in Malaysia and vice versa. The property market in Kuala Lumpur is, however, dependent on the economic development of the country. The economic cycles have led to property cycles in Kuala Lumpur where supply of, and demand for, properties responded to changes in the economy and land policies (Property Market Report, 1996; Rahim & Co Research, 1992). Fig. 1 shows some indicators of the economic

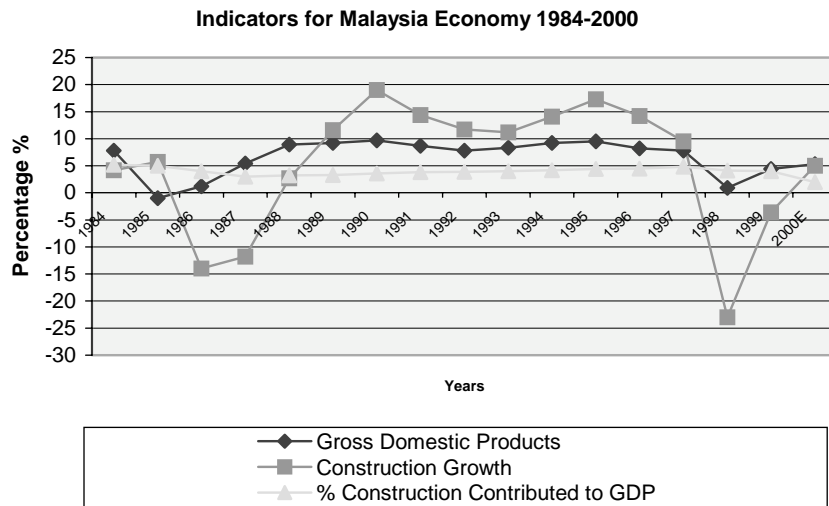


Fig. 1. Malaysia—economic indicators during 1996–2000. Source: adapted from Property Market Report (1991–2001).

performance of Malaysia. The figures reflect the scenario before and after the aftermath of mid-1997 financial crisis in the Asian region. The annual growth rate of GDP decreased from 8.6% in 1996 to 7.7% in 1997 and further decreased to 6.8% in the third quarter of 1998. However, it improved to about 1% by the end of 1999. Similar trends happened in the activities of the construction industry. In 1996 the annual growth rate of the construction sector was at 14.2% and decreased to 9.5% in 1997. The financial crisis was responsible for the worst situation of the construction sector which had a negative growth rate of 19.2% in 1998. In the first quarter of 1997, 31.3% of total loans were to the property sector. These were increased to 35.1% in the third quarter of 1998.

Since the mid-1997 financial crisis in Southeast Asia, there were measures in the form of monetary and fiscal policies to lower interest rates in order to increase liquidity. In 1997 and 1998, levies on foreign landownership were removed for houses priced at RM250,000 and above. An asset management company, Danaharta, was established to take over banks' non-performing loans, which led to the amendment of the National Land Code 1965 to expedite property loan recovery by Danaharta. At the same time, Danamodal, a vehicle with special purposes, was set up to undertake bank recapitalisation. These measures were undertaken to restructure the banking sector and to maintain tight monetary policies and to keep the ringgit stable. At the same time, the measures on the short-term speculators ensured that capital remained in the country. It is, however, too early to gauge the overall impact of the new measures on the nation's property markets. The overall property markets still suffer from an extensive oversupply (Property Market Report, 1998).

### 3. Trends in the property market in Kuala Lumpur

Trends in the property market in Kuala Lumpur are dependent on the economic situation of the country. It can be seen in terms of the interaction between demand and supply, which results

in property transactions in the market. This is illustrated by trends in property transactions in Kuala Lumpur from 1990 to 1999 which is the case in point.

### 3.1. Property transactions (1990–1999)

The volume of property units transacted indicates the level of effective demand for property in the market. The increasing trend in property transactions coincides with the upturn in the property cycles of Kuala Lumpur. Alongside the economic recovery in 1990, there was a total value of RM16.6 billion of properties transacted with a total volume of 165,000 units. In 1996, however, the value of property transacted in Malaysia was almost tripled to the amount of RM49.0 billion with 271,000 units transacted (Property Market Report, 1997). In terms of value transacted, this shows a huge average increase of 19.8% per annum over 6 years. In contrast, an average increase in total units transacted was about 8.6% per annum (see Fig. 2).

The total number of property transactions from 1995 to 1996 showed a marginal increase of 1.9%. It increased by 6.5% from 1996 to 1997 (Property Market Report, 1998). The value of property transacted in all sectors, except for industrial, rose steadily by 15% from RM5.51 billion in 1995 to RM6.34 billion in 1996 (Property Market Report, 1997). In early 1997, the property sector continued to grow and benefit from the low inflation and capital appreciation. It was reported that during the first 7 months of 1997, a total of 156,213 real estate transactions valued at RM27.8 billion were registered. This indicates a moderate growth rate of the property sector. Since mid-1997, the financial crisis has hit the property sectors, resulting in downward trends in property transactions.

% Change in Value and Unit Transacted 1990–2000

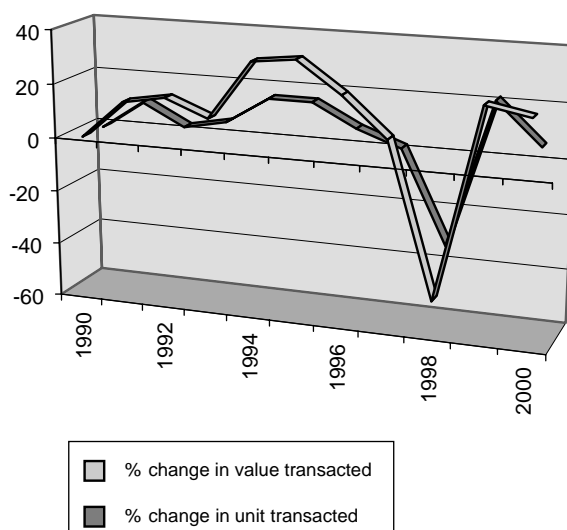


Fig. 2. Percentages of changes in value and quantity transacted 1990–2000. Source: Property Market Report (1991–2001).

### 3.2. Planning approvals (1992–1998)

Despite the rising trend in the demand for properties in Kuala Lumpur during the 1990s, supply of land for property development indicates a slightly different scenario. Planning applications for land development have been encouraged by incentives provided by the government. For example, during the period 1990–1994, Kuala Lumpur City Hall encouraged quality land developments in Kuala Lumpur. However, at the same time, measures were imposed to control the supply of office buildings, and high-rise office developments in Kuala Lumpur had been frozen since 1990. In contrast, hotel and condominium developments were given incentives for the preparation of the “Visit Malaysia Year” of 1994. There were cases of developments obtaining tax exemptions and flexibility in development control. A massive land acquisition of Kampong Baru indigenous land areas for redevelopment was proposed in early 1991 but this was cancelled in 1992 due to institutional constraints. In 1992, the policy on the restriction of office development was reviewed. However, the restrictive policy was reintroduced in 1995 and 1996. In addition, more stringent controls and restrictions on land conversion and building heights have been imposed since 1996. These resulted in a moderate progress of planning applications and development activities from 1992 to 1998 (see Fig. 3).

Fig. 3 shows the largest number of planning applications approved in 1995. The flexible procedures and fiscal exemptions increased the number of planning applications for construction of new buildings by 22.1% from 1992 to 1995. During the same period, Kuala Lumpur City Hall increased the numbers of planning approvals by 48.3%. To sustain the economic growth, the government reviewed the policies over office and high-rise developments in 1993. As a result of a more stringent policy on land use conversion in 1993 and 1994, there was a decrease in the number of development applications by 3.3% from 1995 to 1997. It further dropped by 23.1% from 1997 to 1998 due to the financial crises. Similarly, the number of planning approvals showed a decline by 29.7% during the 3-year period 1995–1997. It decreased further by 14.3% from 1997 to 1998 as a result of the financial crises.

The approvals of the planning applications for development indicate the level of effective supply of land to various types of development. As shown, the rising development activities of the construction industry coincided with the economic growth of the country from 1992 to 1998. However, during the period 1995–1998, the planning approvals for development in Kuala Lumpur showed a downward trend. Therefore, judging from the healthy economic growth and a

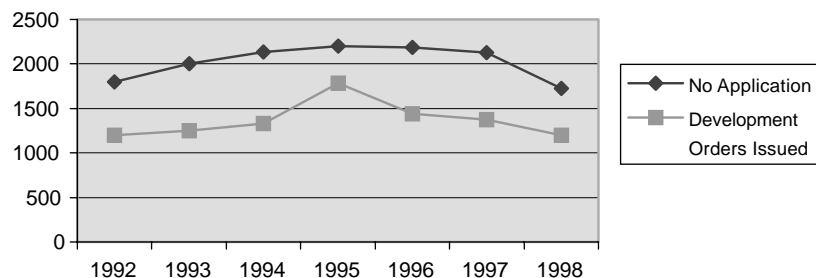


Fig. 3. Planning approvals in Kuala Lumpur 1992–1998. Source: Kuala Lumpur City Hall (1993–1998).

responding construction industry during the period, the author concludes that the declining numbers of planning approvals for development indicate an insufficient supply of land to meet the increasing demand for development in Kuala Lumpur.

### 3.3. Trends in demand for and supply of development land

Despite the rising prices, the market of property development was affected negatively by the economic recession in the mid-1980s. In 1984, Jalan Raja Abdullah in Kampong Baru witnessed a transaction of RM915/m<sup>2</sup> of vacant land. Land plots with detached houses in the secondary locations were purchased at a range of RM323–377/m<sup>2</sup>. In 1985, many development land plots were transacted within the range of RM1977–2240/m<sup>2</sup> in the central area of Kuala Lumpur. Plots suitable for residential development were transacted within the range of RM826–882/m<sup>2</sup> in 1985 when a piece of land for commercial development was sold at RM2540/m<sup>2</sup>. From 1988 to 1992, however, development land prices in Kuala Lumpur escalated. Sites in the central district were sold at RM2152/m<sup>2</sup> in 1985 and peaked at RM6456/m<sup>2</sup> in 1991 (Property Market Report, 1993). In 1996, there were only 48 transactions of vacant land in Kuala Lumpur. Most of the transactions involved the pre-war shophouses for redevelopment to either budget hotels or commercial buildings. There were transactions of vacant sites in the area of Kampong Segambut Malay Reservation with prices ranging from RM129 to RM219/m<sup>2</sup>, while in downtown Kuala Lumpur transaction prices ranged from RM377 to RM699/m<sup>2</sup>.

Fig. 4 shows the number of property transactions in Kampong Baru from 1980 to 1996, involving sites mostly located along major roads. It shows that during the early recession, from 1980 to 1984, transactions of Malay Agricultural Settlement (MAS) land was 10% or 14.3% only. Soon after, economic circumstances became worse and from 1985 to 1989, only 5 transactions or 7.1% occurred in the MAS areas. However, after the economic recovery in early 1990, there were 16 transactions or 22.8% from 1990 to 1992. This was partly due to the government's decision to undertake redevelopment schemes in the MAS area. From 1992 to 1996, after the postponement of the redevelopment proposal (certain portion of commercial uses at prime location within the MAS areas), the property market in the MAS area was dominated by transactions from single and multiple owners to Malay corporations. This shows 39 transactions or 55.7% of total

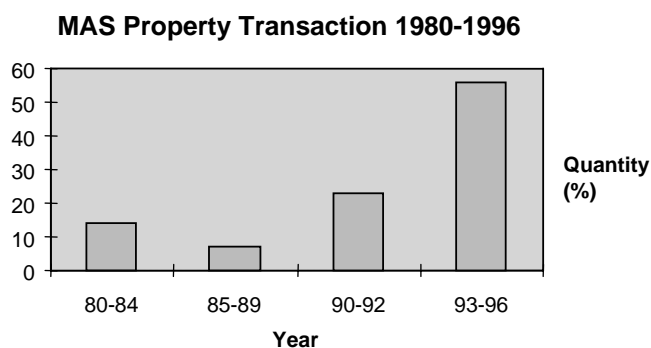


Fig. 4. MAS property transactions 1980–1996. Source: Property Market Report (1993–1997).

transactions. However, the transactions above only show the registered transactions as recorded by the Valuation and Property Services Department for valuation purposes from 1980 to 1996.

In the MAS area in Kampong Baru, it was reported that in the early 1990s, the market value of the land in this area was at around RM1076–2152/m<sup>2</sup>. With the massive redevelopment proposal for Kampong Baru in 1991 and 1992, the government was willing to acquire land at rates between RM1883 and RM2152/m<sup>2</sup> (Property Market Report, 1993). However, the compensation depended on the factors such as location, ownership, and physical conditions, which affected land value (Map 1).

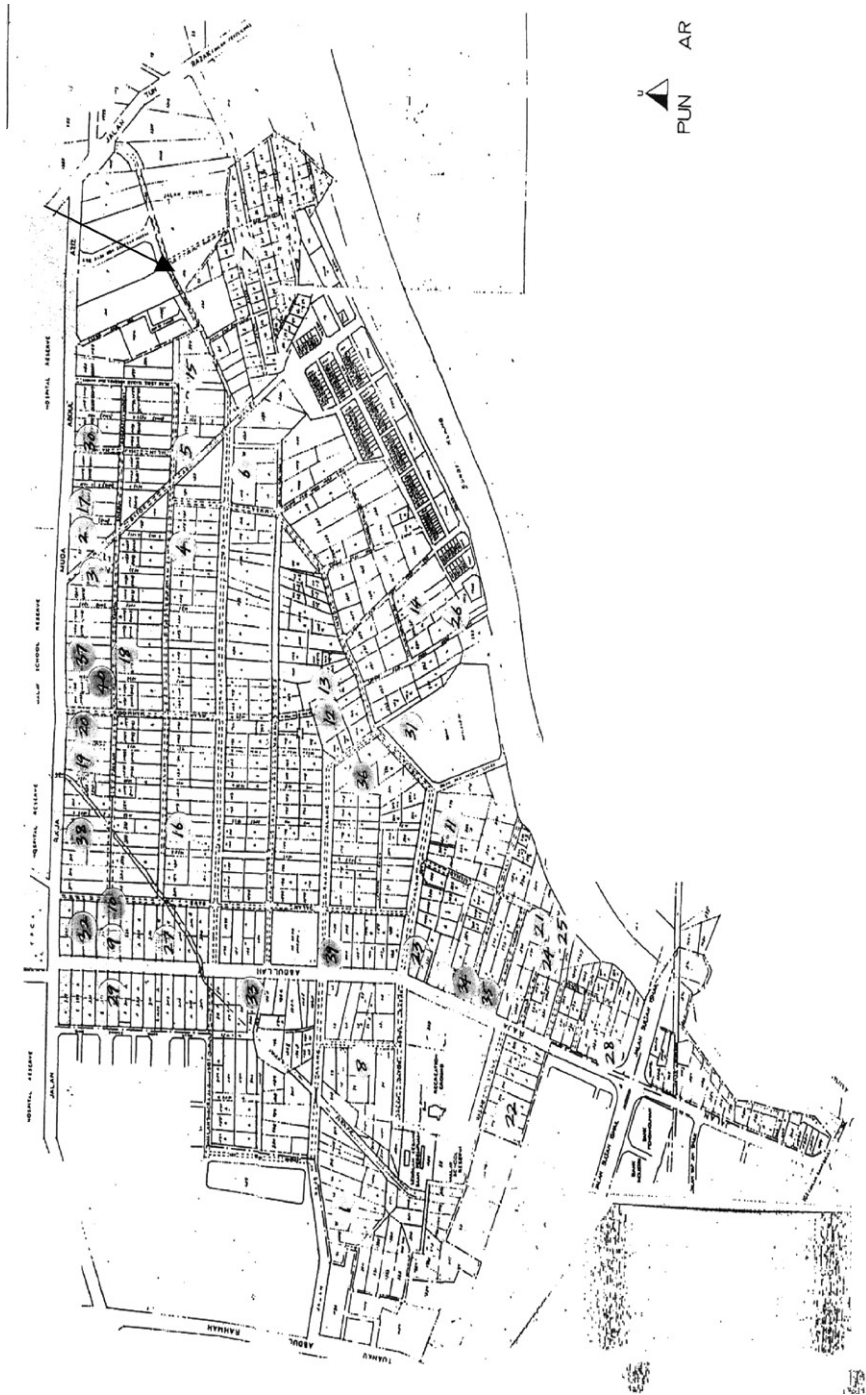
The above discussion indicates the dynamics of price movements of development land in Kuala Lumpur and Kampong Baru area during 1990–1997. The rising land prices in the indigenous MAS area in Kampong Baru attracted many speculators to purchase land for their land banks and development activities (Mahmood, 1996). Among the speculators were Malay corporations, Malay entrepreneurs and wealthy Malay individuals. As observed, most of the property transactions took place along main roads such as Jalan Raja Abdullah, Jalan Raja Alang and Jalan Raja Muda Abdul Aziz. In contrast, the land plots in inferior locations, suitable for residential uses, were less attractive to developers; thus less valuable. This is indicated by a dearth of transactions in the area.

A piece of under-utilised land of a traditional house located along a prime road has been sold for RM750,000 in 1991 and it was then resold 3 years later for RM1.5 million. This shows a price increase of about RM1068.15/m<sup>2</sup> within the 3-year period. Another property, located along the main road Jalan Raja Abdullah was sold for RM0.5 million in 1985 and then resold in 1995 for RM1.2 million. This indicates a price increase from RM2690/m<sup>2</sup> in 1985 to RM6468.91/m<sup>2</sup> in 1995. Another interesting price movement was shown by a transaction of a property along Jalan Raja Alang, a prime road in the MAS area. This property was sold in 1980 for RM150,000 or RM754.17/m<sup>2</sup> and was resold in 1981, for RM180,000 or RM905.02/m<sup>2</sup>. Despite economic recession, in 1984 this property was then sold for RM480,000 or RM2413.47/m<sup>2</sup>. Interestingly, the same property was resold in 1995 for RM600,000 which indicates the price of RM3016.78/m<sup>2</sup> when the economy recovered in 1995 (Property Market Report, 1997). Fig. 5 shows a comparison of price movements of selected development properties in MAS and other areas in Kuala Lumpur from 1990 to 1998.

Although development land and properties were sold in the market, most of the transactions involved properties in good locations. In contrast, there are very few sites at inferior locations of the MAS area transacted for development purposes (Ismail Omar, 1999). According to Abdul Razak (1992), about 80% of 957 lots within the MAS area were under-utilised, derelict or undeveloped. As a comparison, it was estimated that the total area of the under-utilised and vacant land in Kuala Lumpur forms about 20% of the existing Kuala Lumpur land area (Hanif, 1994).

#### **4. The restrictions in interest and the indigenous land market**

The extent to which land is needed for development in Kuala Lumpur has been shown. In spite of the pressure for land supply, there are potential sites located within the Kuala Lumpur central area restricted by various land supply constraints. The causes and effects of these land supply



Map 1. Kampong Baru MAS area and indicated sample lots. Source: Ismail Omar (1999). (Reproduced by permission of the Director of National Mapping Malaysia).



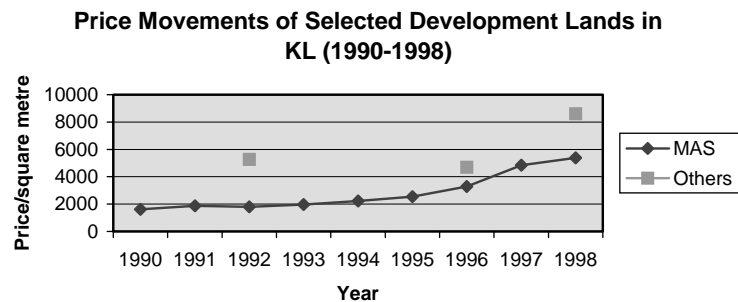


Fig. 5. Price movements of selected development land plots in Kuala Lumpur (1990–1998). Source: Ismail Omar (1999).

constraints will be examined through a case study of indigenous MAS in Kampong Baru, Kuala Lumpur.

#### 4.1. *The indigenous MAS land rights—economic consequences*

The MAS area was gazetted on 12 January 1900 under Section 6, Land Enactments 1897 (Abdul Razak, 1992). The main aim of MAS was to alienate land to the landless Malays in Kuala Lumpur with restrictions to protect their landownership from being transferred to or occupied by non-Malays (Abdul Razak, 1992; Mahmood, 1996; Mohd Syed, 1997). The restrictions in interest are considered as formal rules, which may restrict the supply of MAS land for development purposes. Table 1 shows efforts taken by various bodies to redevelop the case study area.

Since the MAS area in Kampong Baru is the only indigenous land within the Kuala Lumpur central district, there is a need to preserve the indigenous land rights in order to represent Malay urban land holding (Mahmood, 1996; Mohamed, 1995). As a result, this continued establishment and preservation of the MAS area have its economic consequences. As evident in the 1991–1992 redevelopment failure, the land development difficulties were identified as stemming from the status of the indigenous MAS land rights which restricted interests therein (Mohamed, 1995). The indigenous land rights do not allow MAS land to be transferred to, or occupied by, non-Malays and, hence, restrict the supply of land and limit the market of such land. There are several implications as discussed in the following sections.

#### 4.2. *Market limitation*

The restrictions in interest limit the market of the indigenous MAS land to among the Malays only; therefore, the indigenous MAS land has a limited demand. This results in lower value of the MAS land than that of adjacent non-indigenous land in the open market. As a result of a limited demand for the completed developments from the Malays (since there are few Malays who can afford properties in the urban areas of Kuala Lumpur), indigenous land is not attractive to land developers and private investors (Abdullah, 1997). Most of the Malay corporations and public authorities have already had their own premises in Kuala Lumpur (Wan Hamzah, 1993).

Table 1  
Summary of main difficulties for MAS land development

Period	Types of key agents involved	Difficulties for development
Late 1800s–1960s	Landowners  Financial institutions State authority/MAS Board	Title documents, financial, multiple owners led to indecisive, passive attitudes
Late 1960s–1970s	Selangor State Corporation  MAS Board Landowners	Landowners' attitudes toward banking system, inheritance and occupations
During 1980s	Kuala Lumpur City Hall/UDA  MAS Board Landowners HOMES private developers Land Readjustment Method	Limited market, lower values, valuation for compensation High expectation of prices Landowners' attitudes
During 1991–1992	KB Redevelopment Committee  (various property professional and consultants for development) MAS Board, landowners	Limited market, lower values, valuation for compensation High expectation of prices  Landowners' attitudes
1995 onwards	Consortium Pembangunan MasMelayu Berhad (PMMB) and Malay corporations MAS Board and KLCH Landowners	Limited market, lower values, valuation for compensation High expectation of prices Landowners' attitudes

Source: Ismail Omar (1999).

#### 4.3. *Limitation on the financial assistance for development*

In general, a limited market for properties also leads to the problem of development financing for the MAS land. Banks, even Malay-related banks, are not so attracted to finance the development projects on MAS land. Malay landowners have relatively limited capability to undertake development on their own. Although there are Malay individuals and corporations with financial means and expertise who have undertaken development on the MAS land (Arshad, 1997; Tengku Marwan, 1997), the development projects undertaken by these agents are confined to certain prime sites along major roads in the MAS area. In addition, only a limited number of Malay-related organisations and financial institutions are allowed to enter into land dealings and transfers of the indigenous MAS land (Aman, 1993). This indicates a limited number of organisations and agencies able to initiate, manage, and develop the MAS land. As a result, there seems to be a lack of co-ordination among various agents in the redevelopment of indigenous areas (Abdullah, 1997; Hanafiah, 1997; Salleh, 1997).

#### 4.4. *Valuation rules for compensation*

There are valuation rules in determining the amount of compensation for indigenous MAS land. These rules contribute to high valuation for land taken by compulsory acquisition. The First Schedule of the Land Acquisition Act (1960) provides levels of compensation which must be similar between indigenous MAS land and non-indigenous land in the open market. Since MAS land is located within the Kuala Lumpur Central Planning Area, land in this area provides comparables in valuation for compensation purposes, even though the land rights were different between MAS and non-indigenous land. These rules of valuation for compensation purposes lead to higher compensation than the market rate paid to the affected landowners in the MAS area, and thus higher development costs which affect agents' decisions to redevelop the MAS land. In this case, if the developer acquires the land, the project has to be undertaken with a higher density than what is planned or in high-rise developments in order to make the project feasible. Yet, the final product of the development is limited to the Malays who do not prefer high-density and high-rise living. Therefore, developers are reluctant to go ahead to develop the MAS land (Ismail Omar, 1999, 2000). Nevertheless, even though the valuation of land for compensation purposes is higher than the market rate, the compensation is not considered high enough for the landowners to sell their land.

#### 4.5. *Problems in planning and infrastructure*

In connection with the land holding, there are other problems with the infrastructure in the MAS area. Although the MAS area is located within the Golden Triangle of Kuala Lumpur, a certain portion of it is considered inferior to the sites along main roads such as Jalan Raja Abdullah and Jalan Raja Muda Abdul Aziz (Nang, 1997; Salleh, 1997). These sites at inferior locations suffer from problems such as flooding because of inadequate infrastructure. The indigenous MAS land has not been designated its land use in the zoning plan. Although the Kampong Baru Local Plan was approved in 1984 and the Proposed Development Plan was suggested during 1991–1992 land development initiatives, the unique status of the MAS area makes it an open planning system. No planning gives rise to development uncertainties although it provides flexibility to future development (Mohd Syed, 1997; Tamin, 1997; Hanafiah, 1997).

At present, the development of the MAS area has concentrated on low-cost and low-density housing with a few commercial and office buildings along major roads. Individual landowners and business corporations to fulfil their particular requirements undertook most of these developments. As such, the sites at inferior locations and the MAS area as a whole remain under-utilised, despite the fact that the MAS area is located within the central business district of Kuala Lumpur.

Another problem of the MAS area is the small-sized individual land lots. A viable commercial development project requires amalgamation of these small and contiguous lots. Almost 90% of the lots in Kampong Baru are small in size (with less than 808.26 m<sup>2</sup> or the equivalent to 0.08 ha) with the width of frontage about 12.2 m or less (Hanif, 1994; Ismail Omar, 1999). In spite of these, developers have to surrender a portion for public access, set-back and parking (Hanafiah, 1997). The small-sized lots are not conducive to the comprehensiveness and efficiency of developments. It is often difficult to amalgamate contiguous lots because one of the land owners may not be willing to sell (Tengku Marwan (1997). There are also difficulties to trace the registered

Table 2

Landownership and landowners' characteristics

Landownership and landowners	Lot number: developed or applying for development	Lot number: undeveloped or underused or under-utilised
Present uses of sites		
Owner-occupation	34, 35, 37–39	1, 7, 9, 11, 13, 16–18, 26, 30
Renting	10, 32, 36	22, 23
Vacant	19–21, 24, 25, 27, 29	31
Partly occupied and partly rented	33, 40	2–6, 8, 12, 14–16, 28
Characteristics of owners		
Single owner	38	7
Multiple owners	10, 40	1–9, 11–16, 26, 28, 30
Private corporation	19–21, 24, 25, 27, 29, 32–35, 37, 39	17, 18, 22, 23
Public corporation	36	31

Source: Ismail Omar (1999, 2000).

landowners; some of them are dead or holding land as absentee landlords. Therefore, these small-sized lots make land development difficult and costly. Although MAS land rights provide security of land tenure, legal restrictions and limitation of the access to the mortgage facilities for the owners are also created (Nik Abdul Rashid, 1993; Nik Zain, 1992; Md Ariffin, 1997).

As shown in Table 2, the selection of sample sites in the Kampong Baru MAS area reflects a variety of landownership, site and landowner characteristics. It also shows the development status of the sample sites. Many sites are lower than the road level with old, obsolete, under-used, semi-permanent structures. These lots which have been developed or waiting for planning permissions (lots 19, 20, 21, 24, 25, 27, 29, 33 and 34) are located along the main roads. Three developed and 15 undeveloped lots are inheritances which are passed by ancestors to whom the land was alienated by the government in 1897 to the current owners. The majority of these single and multiple landowners intend to pass their land to the next generation. Ten undeveloped lots are occupied by multiple owners in their traditional houses built during the 1960s and 1970s.

There are 11 landowners who refuse to sell and nine landowners who are reluctant to develop their under-utilised lots. In addition, there are eight landowners who are reluctant to develop their land unless certain conditions, such as a suitable type of development, are fulfilled. Other reasons are the maintenance of inheritance and financial difficulties associated with the development of their land on their own. These landowners, from lots 3–8, 12–15, 26, 28, 30 and 38, are seeking higher prices for their land or asking high compensation from the government.

#### 4.6. *The land supply constraints*

The attitudes of landowners of undeveloped lots toward selling or developing their land are summarised in Table 3. It shows that with reference to the landowners' strategies, most landowners of undeveloped lots are reluctant to sell or to undertake development on their own. There are eight landowners who are willing to sell or to undertake land development with some

Table 3  
Landowners of undeveloped sites' attitudes

Attitudes of landowners	Lots	Main reasons for unwilling to sell or to participate in land development
Unwilling to sell	1, 3, 4, 6, 7, 9, 11, 12, 14–16	Own occupation, inheritance, preserving traditional house, defective or without title of documents, asking high compensation
Willing to sell with conditions attached	2, 5, 8, 17, 18, 26, 28, 30	Asking high compensation or high prices, type of development
Unwilling to develop	1, 3, 4, 6, 9, 14–16, 26	Less enthusiasm due to old age or illnesses, uneducated, lack of financial assistance, fear for being cheated, fear for losing income
Willing to develop with conditions attached	2, 7, 8, 11, 13, 17, 18, 23, 30, 31	No urgency, financial difficulties, lack of planning information, asking for high compensation

Source: Ismail Omar (1999, 2000).

Table 4  
Attitudes of landowners of developed sites

Attitudes of landowners	Lots	Main reasons for purchasing, developing or unwilling to sell
Unwilling to sell	34–37, 39	Own occupation, capital appreciation
Willing to sell with conditions attached	10, 32, 33, 38, 40	Asking high compensation or high price, suitable types of land development
Willing to develop	19–21, 24, 25, 27, 29	Realising potential value of land, capital appreciation and rental growth

Source: Ismail Omar (1999, 2000).

conditions attached, for example, if high prices are offered to them. There are 11 passive landowners not willing to sell their land with reasons of unsatisfactory prices and other constraints. Some landowners who are unwilling to sell or to develop their land are actually active as they have investigated development opportunities and then decided to hold out for a better price or waiting for a suitable timing to undertake development (lots 7, 18, 22, 23 and 31). Besides expecting high compensation from the authority, landowners are also asking for high prices from the corporate buyers (lots 2–8, 12, 13, 28 and 40). Even though there are corporations that are able to offer high prices to the landowners, they are constrained by their accountability for their biddings to their shareholders (Tengku Marwan, 1997). Most of the landowners of developed lots are corporate owners and have purchased the land for development or for their own use (see Table 4).

## 5. Conclusion

Since institutions affect agents' decisions and their economic performance, understanding rules for the property market is crucial. In the case of restrictions in interest which affect the supply of

indigenous land for the development purposes, it has been shown that MAS land not being readily available to the property development market when the demand is buoyant is largely due to the indigenous land rights that limit the land market to the indigenous Malays only. In addition, land valuation practices do not distinguish the differences between the MAS land and non-MAS land, leading to higher valuation of the MAS land than its market rate. Thus, high expectation for land prices and low actual market prices because of limited interests often make owners of the MAS land unwilling to sell or to participate in development. However, amendments to the valuation rules for compensation have to be undertaken by considering landowners' responses to the rules. Cultural values play a big role in the development of property markets in the developing countries. As such, formal and informal constraints need to be considered in the study of the indigenous land market. Without eradicating the institutional land supply constraints, the urban redevelopment agenda will come to a halt and this can lead to urban decay.

## References

- Abdullah, Y. (1997). Development of Malay Reservation Lands: Challenges and opportunities. *Seminar on land law—administration and development (Land '97)*, 19–20 August, Grand Continental Hotel, Johor Bahru.
- Abdul Razak, N. (1992). Kampong Baru—a new face. *Proceedings of the fourth national real estate convention*, 21–22 April, Hyatt Saujana Hotel, Kuala Lumpur.
- Arshad, M. (1997). Land manager, Naza Properties Sdn Bhd, personal interview.
- Aman, H. (1993). Development and investment in Malay reservation—a financier's view. *Seminar on Malay Reservation Lands—a development perspective*, 28 September, Pan Pacific Hotel, Kuala Lumpur.
- Graaskamp, J. A. (1992). The institutional valuation constraints. *Journal of Property Valuation and Investment*, 10(3), 598–603.
- Hanafiah, Y. (1997). Planner at Kuala Lumpur City Hall, personal interview, 16 July.
- Hanif, N. R. (1994). *The development of MRL in the city of Kuala Lumpur: Is it a worthwhile investment*. Unpublished MLE Thesis, Department of Land Economy, University of Aberdeen.
- Healey, P. (1992). An institutional model of the development process. *Journal of Property Research*, 9, 33–44.
- Ismail Omar. (1999). *The supply constraints of indigenous land in Kuala Lumpur*. Unpublished Ph.D. Thesis, Department of Land Economy, University of Aberdeen.
- Ismail Omar. (2000). *The valuation constraints of indigenous land supply in Kuala Lumpur*. Paper presented at the Pacific rim real estate conference, Sydney, Australia, 24–27 January.
- Ismail Omar. (2001). *The implications of restriction in interests on the indigenous property market in Kuala Lumpur—an institutional perspective*. Paper presented at seventh Pacific Rim Real Estate Society Conference, University of South Australia, 22–24 January.
- Kuala Lumpur City Hall. (1993, 1994, 1995, 1996). Annual report.
- Keogh, G., & D'Arcy, E. (1998). *Property market efficiency: an institutional perspective*. Discussion Paper 98-02, Aberdeen Papers in Land Economy.
- Land Acquisition Act. (1960). Act 486, International Law Book Services, Kuala Lumpur.
- Mahmood, F. (1996). Pembangunan semula Kampong Baru MAS Melayu. *Konvensyen Perbandaran Melayu Titiwangsa I*, Kuala Lumpur, 20 April.
- Mair, D., & Miller, G. (Eds.). (1992). *A modern guide to economic thought: An introduction to comparative schools of thought in economics*, Aldershot: Edward Elgar.
- Mohamed, S. (1995). *Transformasi Kampong Baru: Permasalahan urbanisasi orang melayu—Satu Himpunan Makalah*. Jabatan Persuratan Melayu, Universiti Kebangsaan Malaysia.
- Md Ariffin, S. (1997). Leasing Malay Reservation Land for development—compromising on economic fundamentals and Malay sentiments. *The Surveyor*, 4th Quarter, Institute of Surveyors Malaysia, Kuala Lumpur.
- Mohd Syed, M. (1997). Secretary General to the MAS Board of Management, personal interview.

- Nang, R. (1997). Valuer, Kuala Lumpur Federal Territory Valuation and Property Services Department, personal interview.
- Nik Abdul Rashid, N. A. M. (1993). Malay Reservation Land: Concepts. *Seminar Tanah Rezab Melayu—Perspektif Pembangunan*, 28 September, Hotel Pan Pacific, Kuala Lumpur.
- Nik Zain, N. M. Y. (1992). Pembangunan Tanah Rezab Melayu dari perspektif sejarah, perundangan dan pembangunan masa depan, *Persidangan Pembangunan Tanah Rezab Melayu*. 9 November, PWTC, Kuala Lumpur.
- North, D. C. (1996). *Institution, institutional change and economic performance*. Cambridge University Press, Cambridge, reprinted.
- Property Market Report. (1991–2001). Valuation and Property Services Department, Ministry of Finance, Malaysia.
- Rahim and Co Research. (1992). Property market 1992–2000, Kuala Lumpur.
- Salleh, K. (1997). Valuer, Kuala Lumpur City Hall, Valuation and Property Management Department, personal interview.
- Tamin, A. (1997). Head of Kampong and MAS Committee member, personal interview.
- Tengku Marwan, T. A. (1997). Land Manager, Land and General Sdn Bhd, personal interview.
- Van der Krabben, E. (1995). *Urban dynamics: A real estate perspective: An institutional analysis of the production of the built environment*. Center for Economic Research, Tilburg University.
- Wan Hamzah, W. A. (1993). Keynote Address in *Seminar on Malay Reservation Lands—a development perspective*. Pan Pacific Hotel, Kuala Lumpur, 28 September.